

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Status Review

# **Quartzsite Elementary School District No. 4**

As of May 18, 2006

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**Debra K. Davenport**  
Auditor General

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

September 6, 2006

Governing Board  
Quartzsite Elementary School District No. 4  
P.O. Box 130  
Ehrenberg, AZ 85334-0130

Members of the Board:

In our January 4, 2006, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2004. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of May 18, 2006. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2005, audit reports and USFR Compliance Questionnaire. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport  
Auditor General

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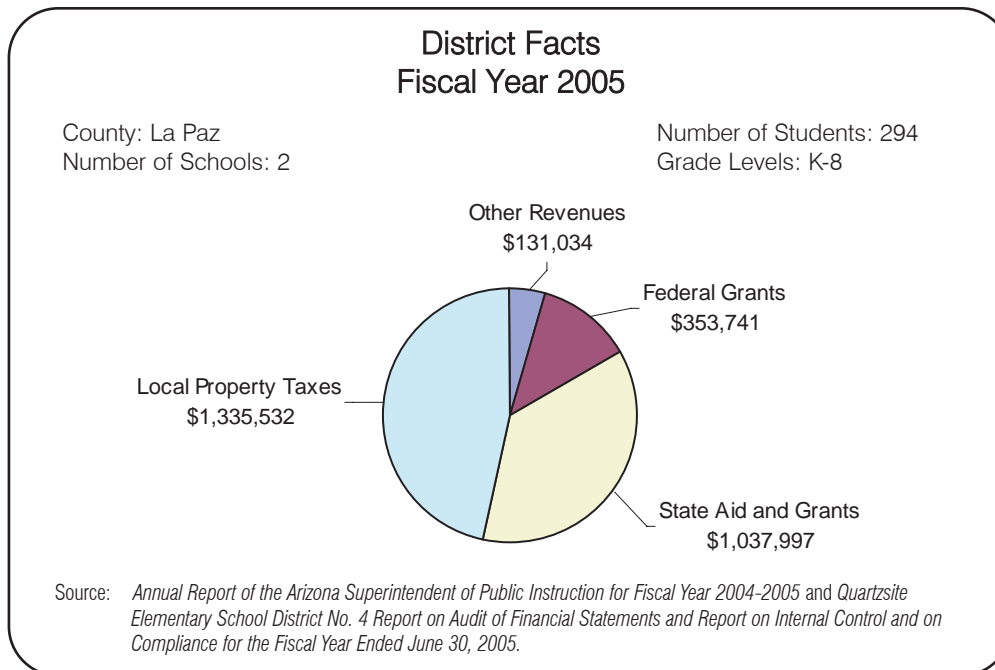


# INTRODUCTION

Quartzsite Elementary School District No. 4 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$2.8 million it received in fiscal year 2005 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education. The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District's controls over cash receipts and disbursements should be strengthened

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

The District receives cash from various sources, including food service sales, student activities, and extracurricular activities fees tax credits, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash and ensure that cash is promptly and accurately recorded and deposited, and that bank accounts are used as authorized by statute. However, the District did not have strong controls over its cash receipts and disbursements. Specifically, the District did not prepare prenumbered, numerically controlled cash receipt forms for food service and student activities monies received, and did not always retain documentation to support that the amount of student activities monies received and reported on cash collection reports was accurate. Also, the District did not always investigate and resolve cash overages or shortages recorded on student activities cash collection reports. In addition, the District did not deposit food service and student activities monies in a timely manner and did not remit receipts deposited in the Food Service Fund clearing bank account to the County Treasurer monthly.

Further, the District inappropriately issued cash receipts to employees for their extracurricular activities fees tax credit donations although no cash was received and the donations were processed through payroll deductions. Finally, the District did not always retain documentation to indicate that students approved disbursements from the Student Activities Fund bank account and used the bank account for district revenues and expenditures related to a classroom activity that was not a student activity as defined by statute.

## Recommendations

To improve controls over cash receipts and disbursements, the District should:

- Issue prenumbered, numerically controlled cash receipt forms for all food service and student activities monies received.
- Document sales from student activities events by issuing tickets, counting items before and after sales, or issuing prenumbered cash receipt forms, unless it is not practical to do so, such as for bake sales. Use cash collection reports to reconcile tickets or items sold to cash collections at student activities events.
- Investigate and resolve any cash overages or shortages reported on the student activities cash collection reports.

Sample student activities cash collection procedures can be found on USFR pages X-H-5 through 9.

- Deposit all cash receipts daily, if significant, or at least weekly in the appropriate bank account.
- Remit monies deposited in the Food Service Fund clearing bank account to the County Treasurer weekly, or at least monthly.
- Document employees' extracurricular activities fees tax credit donations from payroll deductions on employees' payroll remittance advices or with letters from the District acknowledging receipt and amount of donation.
- Record extracurricular activities fee tax credit donations in the Auxiliary Operations Fund or the Extracurricular Activities Fees Tax Credit Fund and maintain detailed records to document that donations received are used for the school and purpose intended by the donor.
- Ensure that the Student Activities Fund bank account includes only monies raised by student efforts and that disbursements are approved by the student clubs and documented in meeting minutes.

## The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District generally did not follow the School District Procurement Rules or the USFR guidelines. Specifically, the District did not give adequate notice and did not include all required information in its invitations for bids. Also, the District did not analyze the known requirements for an item or a collection of items that, in the aggregate, may have required the use of oral or written quotations. Additionally, the District did not always obtain oral or written quotations for purchases that required them. Further, the District did not exercise due diligence by reviewing procurement documentation for purchases made through a purchasing cooperative.

The District did not always follow competitive purchasing requirements and, therefore, could not ensure it received the best value for the public monies it spent.



School District Procurement Rules provide the requirements for invitations for bids and requests for proposals.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9, and in USFR Memorandum No. 213.

## Recommendations

To strengthen controls over purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should follow the procedures listed below:

- Determine whether to request oral or written price quotations or issue invitations for bids or requests for proposals by analyzing the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above \$5,000.
- Issue invitations for bids or requests for proposals, containing all required information, for purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689. The District should also retain all documents necessary to demonstrate compliance with the School District Procurement Rules.
- Obtain oral price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Document the due-diligence procedures performed for at least a sample of the contracts that the District wishes to use from a purchasing cooperative to ensure that cooperative contracts were bid following the School District Procurement Rules.

## The District should maintain complete and accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to have an accurate list of these assets to ensure they are properly identified and accounted for. However, the District did not accomplish this objective. For example, items on the stewardship list could not always be located on the District's premises, and all equipment items in the Quartzsite Elementary School cafeteria were not included on either the capital assets or stewardship lists, as applicable. Also, the District's stewardship list inappropriately included many items that cost less than \$1,000 and did not include the acquisition

The District did not effectively account for its assets since the capital assets and stewardship lists were incomplete.

dates for each item. In addition, the District improperly classified a land improvement as equipment and included the same item on both the capital assets and stewardship lists. Also, tag numbers for assets on the District's capital assets list did not always agree with the tag number on the asset. Further, the District did not update its capital assets list for disposals or maintain a separate disposal list.

## Recommendations

The following procedures can help the District improve controls over its assets and ensure that the capital assets and stewardship lists are accurate and complete:

- Prepare and maintain a current and complete capital assets list that includes all equipment, land, buildings, and related improvements costing \$5,000 or more with useful lives of 1 year or more.
- Prepare and maintain a current and complete stewardship list that includes all equipment, including vehicles, costing between \$1,000 and \$5,000.
- Ensure that the capital assets and stewardship lists contain all required information, including month and year of acquisition, identification number such as tag number or serial number, and location for each asset, and that such information is accurate.
- Delete disposed assets from the District's capital assets and stewardship lists or maintain a separate list of disposals during the year that should be used to update the capital assets and stewardship lists at fiscal year-end.

The stewardship list should include the item's description, identification/tag number, location, and month and year of acquisition as outlined in USFR Memorandum No. 196.

## The District's controls over expenditures should be improved

The District spends public monies to purchase goods and services. It is essential that the District follows procedures designed to help ensure that its purchases are approved before committing district monies and that monies are spent only for appropriate district purposes. However, the District did not always prepare purchase orders prior to procuring goods or services. In addition, the District did not ensure sufficient cash was available in cash-controlled funds before authorizing expenditures. As a result, the Food Service Fund had a negative cash balance. Further, the District made expenditures, that appeared to be gifts of public monies for student attendance incentives and a loan to an employee.

The District's Food Service Fund had a negative cash balance of \$96,507 at April 30, 2006.

## Recommendations

To strengthen controls over expenditures, the District should establish and follow the policies and procedures listed below:

- Prepare purchase orders that are approved by an authorized employee before ordering goods and services.
- Verify that sufficient cash is available in cash-controlled funds before authorizing expenditures from those funds.
- Expend taxpayer monies only for appropriate district purposes. Public monies may not be spent on or loaned to private individuals unless there is a public purpose served and the value the public received is not far exceeded by the amount paid. For expenditures that are not clearly for district operations, the Governing Board should evaluate the expenditure, determine that a public purpose is being served, and document that the public value expected to be received is not far exceeded by the amount being paid before such expenditures are made. The Governing Board should document and retain its determination with the supporting documentation for the expenditure.